

Message Text

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ACTION NEA-12

INFO OCT-01 AF-10 EUR-25 EA-11 ADP-00 CIAE-00 DODE-00

PM-07 H-02 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01

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FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 6716

INFO AMEMBASSY ABU DHABI UNN

AMEMBASSY BEIRUT

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L KUWAIT 1752

DEPT PASS TREASURY

E. O. 11652 GDS

TAGS: EFIN KU

SUBJECT: MOOD OF CAUTION AND CONCERN AMONG KUWAITI
INVESTORS

REF: KUWAIT 1634

SUMMARY: LATEST WAVE OF UNSTABLE CURRENCY MARKETS
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FEDDING GROWING MOOD OF CAUTION AND CONCERN AMONG KUWAITI INVESTORS. THIS REPORT ATTEMPTS PROVIDE OVERVIEW OF MOST NOTICEABLE AND SIGNIFICANT TRENTS WHICH PROBABLY ARE NOT LIMITED TO KUWAIT IN MIDDLE EAST AND WHICH THEREFORE MAY HAVE BEARING ON NEAR TERM INTERNATIONAL FINANCIAL AND INVESTMENT SITUATION. END SUMMARY.

1. ALTHOUGH GOK LOCAL FINANCIAL INSTITUTIONS AND PRIVATE KUWAITI INVESTORS ARE BELIEVED TO HAVE INVESTED OVER \$6 BILLION OUTSIDE KUWAIT AND ALTHOUGH KUWAITIS ARE RELATIVELY SOPHISTICATED IN MIDDLE EAST TERMS AS INTERNATIONAL INVESTORS AS A GROUP THEY CONTINE EXHIBIT TRADITIONAL CONSERVATIVE TRAITS PREFERRING QUICK AND CERTAIN RETURNS. KUWAITIS ALSO FEEL MOST COMFORTABLE WITH FAMILIAR CURRENCIES SUCH AS POUND DNA DOLLAR AND IN DEALING WITH WELL KNOWN INTERNATIONAL FINANCIAL INSTITUTIONS

2. FROM KUWAITI INVESTORS VIEWPOINT LAST FEW YEARS HAVE BEEN CHARACTERIZED BY INCREASINGLY UNSTABLE CONDITIONS. MANY SUFFERED LOSSES FROM FAILURE OF AMERICAN SECURITIES BROCKERAGE HOUSES IN EARLY 1970 AS WELL AS RESULT OF POUND AND DOLLAR DEVALUATIONS. MOREOVER WITH LATEST PRESSURES ON DOLLAR, ALMOST SEEMS AS THOUGH CRISES ARE OCCURING WITH INCREASING FREQUENCY

3. IN FACE OF GENERAL UNSTABLE SITUATION WE HAVE BEEN TOLD GOK SHIFTING LARGER PORTION OF ITS ASSETS TO LONGER TERM " TANGIBLE" ASSETS WHILE PRIVATE INVESTORS AND BANKS APPARENTLY ARE TRYING OPPOSITE TACK OF EMPHASING HIGHLY LIQUID SHORT TERM HOLDINGS SO THAT IF NECESSARY THEY CAN MOVE OUT OF ONE CURRENCY INTO ANOTHER QUICKLY. RIGHT NOW IN KUWAIT NO ONE SEEM TO WANT DOLLARS AND BECAUSE OF LOW/ NEGATIVE RATES OR OTHR PROBLEMS WITH YEN AND CONTINENTAL CURRENCIES, ONLY OUT SEEMS TO BE TO MOVE INTO STERLING OR GOLD. TRADITIONAL INTEREST IN REAL ESTATE REMAINS AND KUWAITIS STILL SEEM INTERESTED IN ATTRACTIVE REAL ESTATE INVESTMENTS IN US.

4. AT LEAST SOME KUWAIT INVESTORS INCLUDING INSTITUTIONAL INVESTORS PREFER TO MAKE KUWAITI DINAR LOANS

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OR INVESTMENTS HOWEVER RATHER THAN DOLLAR PLACEMENT THIS IS PARTICULARLY TRUE IN THOSE INSTANCES WHERE US COMPANIES OR OTHERS HAVE COME TO KUWAIT FROM US SEEKING LOANS. IN SORRT RE INVESTMENTS IN US KUWAITIS GROWING INCREASINGLY UNWILLING ACCEPT EXCHANGE RISKS. BUT IF US BORROWER INTERESTED IN ACCEPTING EXCHANGE RISKS BY BORROWING KD' S POSSIBILITY ATTRACTING KUWAIT FINANCING

IMPROVES CONSIDERABLY.

5. AT MOMENT PICTURE IS SOMEWHAT MIXED. KUWAITIS LOOKING FOR ATTRACTIVE FINANCIAL OPPORTUNITIES BUT UNSTABLE CONDITIONS CAUSING MOOD OF CAUTION AND CONCERN. KUWAITIS VERY INTERESTED IN INTERNATIONAL MONETARY REFORM HOPING THIS WILL HELP RETURN TO STABLE CONDITIONS. MEANWHILE THEY WOULD WELCOME ANY OTHER UNILATERAL AMERICAN OR MULTILATERAL MOVES WHICH WOULD INDICATE THAT VALUE OF DOLLAR WILL BE PRESERVED. COURSE OF WATERGATE INVESTIGATIONS VARIOUS NEGOTIATIONS WITH AND AMONG EUROPEANS AND SUMMIT WITH BREZHNEV CAN BE EXPECTED TO BE WATCHED CLOSELY BY INVESTORS FOR WHATEVER SIGNS THEY MAY HOLD. KUWAITIS

ALSO VERY INTERESTED IN ANY MOVES USG MAY TAKE INCLUDING WITHHOLDING TAX REGULATIONS CHANGES WHICH WOULD BE MADE TO ATTRACT FOREIGN INVESTMENT.

6. KUWAITIS BELIEVE THAT AS A NATION WITH PETROLEUM THEIR ONLY NATURAL RESOURCE THEY MUST INVEST TO EXIST THEREFORE INTERNATIONAL MONETARY STABILITY IS VIRTUALLY A STRATEGIC REQUIREMENT HERE. AT SAME TIME GOK NOT IN A POSITION TO TAKE LEADING ROLE IN INTERNATIONAL NEGOTIATIONS. IT THEREFORE MUST WATCH MOVES OF OTHERS NERVOUSLY BUT PASSIBLY. THOUGH BULK OF ITS OVERSEAS INVESTMENT IS IN EUROPE AND ONLY 15-20 PERCENT IN US (IE ABOUT \$1 BILLION) KUWAITIS RECOGNIZE KEY MOVES WILL BE MADE FROM WASHINGTON AND THEREFORE KUWATI INVESTMENT COMMUNITY WILL CONTINUE TO LOOK TO USG FOR LEADERSHIP IN THIS AREA DESPITE MONETARY WEAKNESS OF DOLLAR.
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